



**Hotel Occupancy Tax –
Camino Real Hotel
Audit No. A2013-01**

Issued by the
Internal Audit Office
February 20, 2013

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of Hotel Occupancy Taxes paid by the Camino Real Hotel – El Paso. Based on the results of the audit, two (2) findings have been identified. Both of these findings are considered significant in nature.

Listed below is a summary of the two (2) significant findings identified in this report.

1. Due to lack of knowledge and limited time, the Camino Real Hotel overpaid their Hotel Occupancy Tax to the City of El Paso by \$1,214.04. This is a result of the Camino Real paying taxes on meeting room rentals and not adjusting amounts of Hotel Occupancy Tax exemptions granted to government employees.
2. The gross receipts and taxable receipts reported to the Texas Comptroller of Public Accounts for the second quarter of 2012 did not match with what was reported to the City of El Paso Financial Services Department.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

Beginning in calendar year 2013, the City of El Paso began imposing a 9% Municipal Hotel Tax on the cost of the hotel accommodations, the Hotel Tax was previously at 7%. Hotels collect the Hotel Occupancy Tax from its guests and then remit the tax to the City on a quarterly basis. The City of El Paso has a process in place for conducting Municipal Hotel Occupancy Tax Audits of selected hotels in the El Paso area. As part of this ongoing process, the Camino Real El Paso was selected for review. The Camino Real has remitted Hotel Occupancy Taxes in the amount of \$180,201.64 to the City of El Paso for calendar year 2012.

The Camino Real is a full service hotel that provides lodging accommodations, restaurant and lounge services, meeting rooms, a fitness center, and an outdoor swimming pool. The Camino Real El Paso opened 100 years ago on Thanksgiving Day 1912. It has been hailed the “Showplace of the West” and it is listed on the National Historic Register under the name of Hotel Paso del Norte – “Pass of the North.” The hotel is located in downtown El Paso at 101 South El Paso Street near the Judson F. Williams Convention Center. After decades of having different owners and renovations with many expansions, the landmark hotel in Texas became the biggest hotel in the Southwest.

Real Turismo was operating nine Camino Real hotels in 1992, when it purchased the landmark 375-room Paso del Norte Hotel and renamed it the Camino Real El Paso. Real Turismo, S.A. de C.V. is the operator of the Camino Real chain of Mexican luxury-class hotels. The Camino Real Group is the third-largest Mexican-owned hotel chain and the longest in continuous operation. Real Turismo is a subsidiary of Grupo Empresarial Angeles, a privately owned conglomerate.

AUDIT OBJECTIVES

The audit objective for the Hotel Occupancy Tax – Camino Real Hotel Audit is to determine if the Camino Real Hotel El Paso has collected and remitted Municipal Hotel Occupancy Taxes to the City of El Paso in accordance with applicable State and City regulations.

AUDIT SCOPE

The audit period covered the operations of the Camino Real Hotel – El Paso during the period of January 2012 – June 2012.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with City of El Paso Financial Services staff,
- Conducted interviews with Camino Real Hotel management and staff,
- Reviewed and compared quarterly hotel occupancy receipts reports submitted to the State and City and identified and determined cause for any discrepancies,
- Performed tests of selected transactions.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

**City of El Paso
Internal Audit Office
Hotel Occupancy Tax – Camino Real Hotel Audit No. A2013-01**

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

Finding: 1

Municipal Hotel Occupancy Tax Overpayment

As required by Texas Tax Code, Chapter 351 “Municipal Hotel Occupancy Taxes:”

- Section 351.002. Tax Authorized: *“A municipality by ordinance may impose a tax on a person who...pays for the use or possession...of a room that is in a hotel, costs \$2 or more each day, and is ordinarily used for sleeping.”*
- Section 351.006. Exemption: *“A governmental entity described in Section 156.103(a) is exempt from the payment of tax authorized by this chapter....the exemption must be supported by the documentation required under rules adopted by the comptroller and the municipality.*

Due to incorrect adjustments by the Camino Real Hotel, the City of El Paso owes the Camino Real \$1,214.04. The second quarter of 2012 was selected for review, with detailed testing conducted of the month of April 2012. The following variances were noted:

	Quarterly HOT Activity Reported to the City Financial Services Dept.	Internal Audit’s Calculation HOT Activity for 2nd Quarter 2012	Variance	
2012 2nd Quarter Room Revenue	689,604.00	689,604.00	-	
Less Meeting Room Revenue		(16,125.00)	(16,125.00)	1
Add S & P (Food & Beverage) calculation difference		21.49	21.49	2
Net Income:	689,604.00	673,500.49	(16,103.51)	
Less Tax Exemptions (Government Employees)		(1,240.00)	(1,240.00)	3
Less 30 Day Rental Exemptions	(13,944.84)	(13,944.84)	-	4
Taxable Income:	675,659.16	658,315.65	(17,343.51)	
City Hot Tax Due (@ 7%)	47,296.14	46,082.10	(1,214.04)	5

1	State hotel tax applies to charges for sleeping accommodations, meeting rooms, and banquet rooms in a hotel or motel; Local hotel taxes apply only to charges for rooms ordinarily used for sleeping.
2	The Internal Audit Office re-calculated S & P (breakfast buffet deduction) to be \$21.49 more.
3	The Camino Real Hotel does not adjust the amounts of exemptions provided to guests when calculating Taxable Room Revenue. (Note: only the month of April was calculated by the Internal Audit Office)
4	30 Day Exemptions are listed as “Federal” Exemptions on the quarterly reports submitted to the City of El Paso.
5	Amount overpaid by Camino Real to the City of El Paso for Hotel/Motel Occupancy Taxes for the 2 nd quarter of 2012.

City of El Paso
Internal Audit Office
Hotel Occupancy Tax – Camino Real Hotel Audit No. A2013-01

Recommendation:

The Camino Real Hotel should ensure the following before calculating and paying the Municipal Hotel Occupancy Tax to the City of El Paso:

- Meeting Room Revenue is not included in room income,
- S & P adjustments are properly calculated,
- Allowable Hotel Occupancy Tax exemptions given to government employees are identified and adjusted from Net Income to arrive at Taxable Income.

The City of El Paso should remit \$1,214.04 to the Camino Real Hotel.

Finding: 2

Hotel Occupancy Tax Monitoring

Gross room receipt amounts reported by hotels to the City of El Paso should not differ from what is reported to the State of Texas. Differences in amounts reported for taxable room receipts are expected and can be attributed to Occupancy Tax exemptions authorized by Chapter 351 of the Texas Tax Code:

- *State* Hotel Occupancy Tax exemptions are granted to education and religious organizations, government employees and guests who stay longer than 30 days.
- *Local* Hotel Occupancy Tax exemptions are only granted to government employees (upon verification of government ID) and guests who stay for more than 30 days.

The gross receipts and taxable receipts reported to the Texas Comptroller of Public Accounts for the second quarter of 2012 did not match with what was reported to the City of El Paso:

- \$713,985.00 in gross room receipts was reported to the State versus \$689,604.00 reported to the City of El Paso, a difference of \$24,381.00.
- \$697,579.92 in taxable room receipts was reported to the State versus \$675,659.00 reported to the City of El Paso, a difference of \$21,920.92.

Recommendation:

The City of El Paso Financial Services Department should verify that the Hotel Occupancy Tax amounts reported by hotels to the State equal what was reported to the City of El Paso.

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded work on the audit objectives of the Hotel Occupancy Tax – Camino Real Hotel Audit. In accordance with *Generally Accepted Government Auditing Standards* we are required to conclude on whether the Camino Real Hotel met the objectives of this audit. The following is our conclusion:

- The Camino Real El Paso has conscientiously collected and remitted Municipal Hotel Occupancy Taxes to the City of El Paso on a timely basis.
- The Camino Real is not excluding allowable adjustments from Taxable Room Revenue when calculating Municipal Hotel Occupancy Taxes. The Camino Real includes Meeting Room Revenue when calculating Municipal Hotel Occupancy Taxes.
- The Camino Real Hotel does not adjust the amounts of eligible and properly supported Hotel Occupancy exemptions given to government employees.

The City of El Paso's Financial Services Department should monitor amounts reported and remit \$1,214.04 to the Camino Real Hotel.

Implementation of the recommendations provided in this Audit Report should assist the Camino Real Hotel to achieve full compliance in the collection and remittance of Municipal Hotel Occupancy Taxes. We wish to thank the management and staff of the Camino Real Hotel – El Paso for their assistance and courtesies extended throughout this audit.

No responses are being asked of the Camino Real Hotel or The City of El Paso Financial Services Department.

Signature on File

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